

FAST FACTS

- ◆ The Consumer Leasing Act requires leasing companies to tell you the facts about the cost and terms of their contract.
- ◆ The Act applies to personal property leased by an individual for a period of more than four months for personal, family, or household use.
- ◆ In an open end lease you run the risk of owing extra money (a "balloon payment") depending on the value of the property when you return it.
- ◆ In a closed end lease, you are not responsible for the value of the property when you return it and will not have to make a balloon payment.
- ◆ If you decide to lease, compare the costs and advantages of open end and closed end leases.

Are you wondering whether leasing your next car would be a good idea? OR Would you rather lease than buy furniture for an apartment you'll use for only a year?

When leasing looks like a good option, there's a federal law that will help you shop for the best deal. The Consumer Leasing Act requires leasing companies to tell you the facts about the cost and terms of their contracts. You can use the information to compare one lease with another or to compare the cost of leasing with the cost of buying the same property. The law also limits any extra payment you may have to make at the end of a lease and regulates lease advertising. This brochure describes the Consumer Leasing Act and the regulation issued by the Federal Reserve Board to carry it out.

WHAT LEASES ARE COVERED?

The law applies to personal property leased by an individual for a period of more than four months for personal, family, or household use. It covers long-term rentals of cars, furniture, appliances, and other personal property.

The law does **not** cover:

- ◆ daily car rentals or month-to-month rentals that you can cancel without penalty at the end of the month;
- ◆ leases for apartments or houses -- or furniture that comes with a rented apartment;

- ◆ property leased to companies or to individuals for business use; and
- ◆ rent-to-own agreements.

WHAT ABOUT COSTS?

Before you agree to a lease, the law requires that you get a written statement of its costs, including:

- ◆ the amount of any advance payment, such as a security deposit;
- ◆ the number, the amount, and the dates your regular payments are due, as well as the total amount of those payments; and
- ◆ the amount you must pay for license, registration, taxes, and for any other fees, such as maintenance.

WHAT ABOUT TERMS OF THE LEASE?

You must also be told certain terms of the lease, including:

- ◆ what kind of insurance you need;
- ◆ any express warranty on the property;
- ◆ who is responsible for maintaining and servicing the property, and any standards for wear and tear set by the leasing company(which must be reasonable);
- ◆ any penalty for default or late payment;
- ◆ how you or the leasing company may cancel the lease and the charges for doing so; and
- ◆ whether or not you can buy the property and, if you can, when and at what price.

WHAT ARE OPEN END LEASES AND BALLOON PAYMENTS?

One decision that will affect leasing costs and terms is whether you choose an "open end" (or "finance") or "closed end" lease. In an open end lease, you run the risk of owing extra money depending on the value of the property when you return it. This payment is often called a "balloon payment." For example, when you sign a three-year open end car lease, the leasing company may estimate that the car will be worth \$4,000 after three years of normal use. If the car is worth only \$3,300 when you return it, you may have to pay a \$700 balloon payment.

In a closed end lease, you are not responsible for the value of the property when you return it and will not have to make a balloon payment. As a result, closed end leases usually have higher monthly payments than open end leases.

You should know that in an **open end lease**:

- ◆ The leasing company must tell you that you may have a balloon payment and how it is calculated.
- ◆ At the end of the lease you have the right to obtain an estimate of the property's worth from an independent appraiser. Both parties must abide by the estimate.

Limits on Balloon Payments. You should also know that the law limits a balloon payment in an open end lease to no more than three times the average monthly payment -- unless you agree to make a higher payment or you have used the property more than average (for example, if you put more than average mileage on a car). The leasing company may also seek a larger payment by going to court. If it goes to court, the company has the burden of proving that its original estimate of the value of the property, although wrong, was reasonable and made in good faith. The company must pay your attorney's fees in such a lawsuit, whether or not it wins.

WHAT ABOUT ADVERTISING?

The law also regulates the advertising of leases. If a leasing company advertises the amount or number of payments or that any or no downpayment is required, it must also mention several other important terms, including the total of regular payments, your responsibilities at the end of the lease, and whether or not you may purchase the property. This is to make sure you receive enough information from the advertisement to understand the offer and to compare it with others.

WHAT ARE THE PENALTIES?

You as an individual may sue a leasing company if it fails to give you the required information or does so improperly. You may sue for 25 percent of the total of the monthly payments plus any actual damages (but not less than \$100 or more than \$1000). If an advertisement violates the law, you may sue the leasing company for your actual damages. In any successful lawsuit, you are also entitled to court costs and reasonable attorney's fees. You must file your suit within one year of the termination of the lease agreement. The law also provides criminal penalties for intentional violators.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

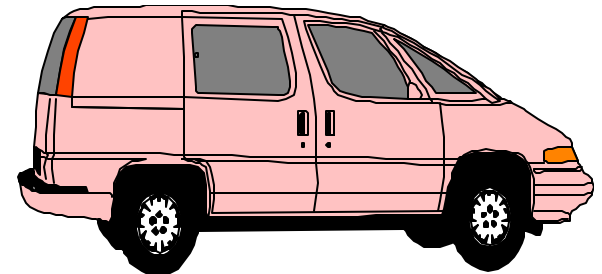
- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
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- Choosing A Credit Card
- Co-Signing
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- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
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- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



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TRUTH IN LEASING



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